



INSTRUCTIONS FOR 2000 KENTUCKY S CORPORATION INCOME AND LICENSE TAX RETURN

720S

IMPORTANT FORM CHANGES FOR 2000

Part III, License Tax Computation of Form 720S has been revised to reflect the provisions of **Regulation 103 KAR 20:020**. This regulation was approved by the Administrative Regulations Review Subcommittee on October 28, 1999, and applies to the computation of capital reported on returns filed for taxable years beginning after December 31, 1999. Thus, returns filed for the calendar year 2000 are the first returns to which this regulation applies.

SCANNABLE FORMS

The S corporation income tax forms were changed beginning with the 1999 tax year to facilitate scanning and imaging. The information requested on the forms is the same as that regulation prior to 1999.

There are boxes where scannable data is to be entered. Use **black ink** to enter data. Either handwritten data or machine print is acceptable. Numbers should be written like this:



When entering data in these boxes, the numbers should be right justified (blank spaces should be on the left). **No dollar signs, commas, decimals or other symbols should be used.** If there is no information to be entered in a box, leave it blank. All amounts should be rounded to the nearest dollar and no cents entered. For example, \$11,949.50 or \$11,950.49 would be entered:



There is also a reference mark and form number near the bottom left corner of each form. Please do not write in this area.

41A720S0013



Important: Use only an **original printed** form or an **approved** computer-generated version of this year's income tax forms since data must be placed in specific areas on the return to be read correctly. Use of photocopies or faxed copies may cause delays in the processing of the return.

Forms and instructions are available at some libraries, post offices, courthouses, banks and all Kentucky Taxpayer Service Centers (see page 9). They may also be obtained by writing FORMS, Revenue Cabinet, Frankfort, KY 40620, or by calling (502) 564-3658. Forms can be downloaded from <http://www.state.ky.us/agencies/revenue>. Forms are also available by fax through the Revenue Cabinet's fax-on-demand system, *TaxFax*, at (502) 564-4459. However, the use of scannable forms received from *TaxFax* may cause delays in processing.

2000 KENTUCKY TAX LAW CHANGES

Internal Revenue Code (IRC) Update—Effective for taxable years beginning after December 31, 1999, KRS 141.010(3) was amended to define "Internal Revenue Code" (IRC) for Kentucky income tax purposes to mean the IRC in effect on December 31, 1999, exclusive of any amendments made subsequent to that date, other than amendments which (1) provide for changes in accounting methods or (2) extend provisions in effect on December 31, 1999, that would otherwise terminate.

Income from Tobacco Settlement—Senate Bill 247, enacted by the 1998 General Assembly, provided that amounts received by a producer of tobacco or a tobacco quota owner from a national settlement agreement between the tobacco industry and States Attorneys General are excluded from Kentucky adjusted gross income in the case of taxpayers other than corporations. Senate Bill 49, passed by the 2000 General Assembly, clarifies that exclusion by specifically referring to the Master Settlement Agreement signed on November 22, 1998, and the settlement fund referred to as "Phase II." This bill extends this exclusion to corporations retroactive to taxable years beginning after December 31, 1998. The bill also provides for the exclusion of amounts received from the Tobacco Loss Assistance Program administered by the Commodity Credit Corporation. The program authorized under Public Law 106-78, Title 8, Sec. 803 provides funds for reductions in the quantity of the tobacco quota allotments. **KRS 141.010(12) (i), (j) and (k)**

Coal Incentive Tax Credit—KRS 141.0405 and 141.0406 were created to allow a nonrefundable credit against corporation income tax, individual income tax, corporation license tax and public service company property tax for Kentucky coal purchased and used for the purpose of generating electricity. Only coal that is subject to Kentucky's coal severance tax qualifies for the credit. The credit is equal to \$2 per ton of Kentucky coal purchased by the company that is above the amount of Kentucky coal purchased during the base year. The base year amount is the amount of coal purchased in calendar year 1999 for existing companies. For new entities, the base year amount will be zero. This provision is effective for 10 consecutive years beginning on July 15, 2001. This credit may be claimed on returns filed after July 15, 2001.

Economic Opportunity Zones—Effective July 14, 2000, Subchapter 23 of KRS Chapter 154 was created to allow the Economic Development Cabinet to establish economic opportunity zones to encourage the location and expansion of manufacturing, service or technology industries. Kentucky Rural Economic Development Act (KREDA) counties qualify as economic opportunity zones. Approved companies are allowed a credit against the corporation income tax or individual income tax equal to the income tax that would be due from the net income of the project. Approved companies may also impose a wage assessment fee not to exceed 5 percent of the gross wages of qualified employees. The assessment fee is to be deducted from the wages the approved company pays to the qualified employee. The employee shall be entitled to a credit against Kentucky income tax withholding (4 percent maximum) and local occupational license fee (1 percent maximum) equal to the total amount of the assessment fee. The credits may be taken for a period of up to 10 years. For information regarding the application and approval process for this credit, contact the Cabinet for Economic Development at (502) 564-7670.

Kentucky Industrial Revitalization Act Tax Credits—Effective for taxable years beginning on or after December 31, 1999, KRS 136.0704 was created and KRS 154.26-010 was amended to expand the Kentucky Industrial Revitalization Act (KIRA) tax credit to apply to corporation license tax in addition to corporation income tax. The license tax credit is calculated based on the capital attributable to the approved industrial revitalization project and is subject to the same credit limits as the corporation income tax KIRA credit.

Skills Training Investment Tax Credit—KRS 141.405 is amended to allow S corporations and partnerships to pass through the skills training investment tax credit to shareholders and partners.

Tax Treatment of S Corporation and Shareholder(s)

A corporation which elects S corporation treatment for federal income tax purposes in accordance with Sections 1361(a) and 1362(b) of the Internal Revenue Code (IRC) must file as an S corporation for Kentucky income tax purposes. Generally, income earned by an S corporation is taxed at the shareholder level rather than at the corporate level although S corporations are taxed on certain capital gains. Each shareholder includes on his return, on a pro rata basis, each item of income, loss, deduction or credit of the S corporation that can affect the computation of his tax liability. Pursuant to Section 1366 of the IRC, each such item is treated as if it were realized directly from the source from which it was realized by the S corporation or incurred in the same manner as incurred by the S corporation.

The shareholders, rather than the S corporation, are taxed on the income of the S corporation and some income and expense items are subject to special rules. Therefore, it is necessary to report the S corporation's items of income, loss, expense and credit in two categories: (1) separately stated items and (2) items used to figure nonseparately computed income or loss. Nonseparately computed income or loss is the net income or loss (gross income less allowable deductions) of the S corporation computed after excluding all the items that must be separately stated. The separately stated items and the nonseparately computed income or loss are collectively known as pass through items because they are passed through to the shareholders on a pro rata basis.

S corporations having 15 or more full-year nonresident individual shareholders with no other Kentucky income may receive permission from the Revenue Cabinet to file a combined return in lieu of separate returns for the qualifying shareholders (see Revenue Circular 40C010). For further information, contact the Division of Compliance and Taxpayer Assistance, Revenue Cabinet, Frankfort, KY 40620.

Banks and Savings and Loan Associations—KRS 141.010(10)(j) excludes from the Kentucky adjusted gross income of the shareholders the distributive share of net income from an S corporation subject to tax under KRS 136.505, the bank franchise tax, or KRS 136.300, the savings and loan association capital stock tax. KRS 141.010(10)(j) also excludes from the Kentucky adjusted gross income of the shareholders the portion of the distributive share of net income from an S corporation related to a qualified S subsidiary subject to tax under KRS 136.505 or KRS 136.300.

An S corporation subject to tax under KRS 136.505 or KRS 136.300 should enter zero on lines 1 through 6 and 8 and 9 of Form 720S, Schedule K. An S corporation related to a qualified S subsidiary subject to tax under KRS 136.505 or KRS 136.300 should exclude from the amounts entered on lines 1 through 6 and 8 and 9 of Form 720S, Schedule K the portion of these items related to the subsidiary. The net amount of the items of income and deductions excluded from lines 1 through 6 and 8 and 9 of Form 720S, Schedule K should be entered on line 17 of Form 720S, Schedule K. A statement should be attached to each shareholder's Form 720S, Schedule K-1 advising the shareholder that this income is excluded for Kentucky income tax purposes because the S corporation is subject to tax under either KRS 136.505 or KRS 136.300.

PASS THROUGH TAX CREDITS

Skills Training Investment Tax Credit—To be eligible for this credit, the S corporation must have received a final authorizing resolution from the Bluegrass State Skills Corporation approving the amount of the credit. The approved credit is passed through pro rata to each shareholder. The total amount of the credit should be entered on Schedule K prepared for the taxable year during which the final authorizing resolution is issued by the Bluegrass State Skills Corporation, and a copy of the final authorizing resolution should be attached. Each shareholder's distributive share should be reflected on the Schedule K-1 provided to them for the taxable year that the credit is approved. Information regarding the approval process of this credit may be obtained from the Cabinet for Economic Development, Bluegrass State Skills Corporation at (502) 564-2021.

Unemployment Tax Credit—If an S corporation has hired a Kentucky resident classified as unemployed for at least 60 days and the resident remains in the employ of the S corporation for 180 consecutive days during the tax year (a qualified person), the S corporation may be entitled to the unemployment tax credit. The period of unemployment must be certified by the Cabinet for Workforce Development, Frankfort, KY, and a copy of the certification must be maintained by the S corporation. **KRS 141.065**

The unemployment tax credit is determined by the S corporation and then passed through pro rata to its shareholders. The credit is computed on Schedule UTC which contains detailed instructions and may be obtained from the Revenue Cabinet. To claim the credit, Schedule UTC must be attached.

Recycling/Composting Tax Credit—An S corporation, which purchases recycling and/or composting equipment to be used exclusively in Kentucky for recycling or composting post-consumer waste materials, may be entitled to a credit against the income tax imposed on the S corporation by KRS Chapter 141 in an amount equal to 50 percent of the installed cost of the equipment. Application for this credit must be made by the S corporation on Schedule RC, which may be obtained from the Revenue Cabinet. **KRS 141.390**

The approved credit is passed through pro rata to the shareholders of the S corporation. A copy of Schedule RC reflecting the amount of credit approved by the Revenue Cabinet must be attached to the S corporation's return for the year during which the equipment was purchased. The total amount of the approved credit should be entered on Schedule K. The S corporation must compute each shareholder's pro rata share by completing Parts I and II of Schedule RC (K-1), Pro Rata/Distributive Share of Approved Recycling and/or Composting Equipment Tax Credit. A copy of the completed Schedule RC (K-1) should be provided to each shareholder with their Schedule K-1 (Form 720S).

Kentucky Investment Fund Tax Credit—An S corporation which is an investor in an investment fund which has been approved by the Kentucky Economic Development Finance Authority (KEDFA) in accordance with KRS 141.20-257 is entitled to a nonrefundable credit against Kentucky income tax. To be entitled to the credit the S corporation must have received approval from KEDFA of the amount of the qualified investment and the amount of the credit.

The approved credit is passed through pro rata to each shareholder. The total amount of the credit should be entered on Schedule K prepared for the taxable year during which the credit is approved by KEDFA, and a copy of the form received from KEDFA that shows the amount of the approved credit should be attached. Each shareholder's distributive share of the credit should be reflected on the Schedule K-1 provided to them for the taxable year during which the credit is approved by KEDFA. Information regarding the approval process for this credit may be obtained from the Cabinet for Economic Development, Department of Financial Incentives at (502) 564-7670.

Coal Incentive Tax Credit—Effective for tax returns filed after July 15, 2001, an electric power company or a company that owns and operates a coal-fired electric generating plant may be entitled to a coal incentive tax credit. Application for this credit is made on Schedule CI, Application for Coal Incentive Tax Credit, and a credit certificate is issued by the Kentucky Revenue Cabinet reflecting the amount of the approved credit.

The approved credit is passed through pro rata to each shareholder. The total amount of the credit from the certificate issued for coal purchases made during the calendar year that ended during the taxable year should be entered on Schedule K, and a copy of the certificate should be attached. Each shareholder's distributive share should be reflected on the Schedule K-1 provided to them for the taxable year.

GENERAL INFORMATION

Kentucky Tax Registration Application—Prior to doing business in Kentucky, each S corporation should complete a Kentucky Tax Registration Application, Revenue Form 10A100. The application is available at Kentucky Taxpayer Service Centers (see page 9) or from the Revenue Cabinet, Taxpayer Registration Section, Frankfort, KY 40620 (see Revenue Circular 10C030). The application may be faxed to (502) 227-0772.

Who Must File—A Kentucky S Corporation Income and License Tax Return, Form 720S, must be filed by every S corporation (a) organized under the laws of Kentucky, (b) having its commercial domicile in Kentucky, (c) owning or leasing property in Kentucky, (d) having one or more individuals employed or subject to unemployment insurance tax in Kentucky or (e) which is a partner in a partnership doing business in Kentucky. A limited liability company (LLC) is treated for Kentucky income tax purposes in the same manner as it is treated for federal income tax purposes. Therefore an LLC filing a U.S. Income Tax Return for an S Corporation, Form 1120S, for federal income tax purposes must file Form 720S. **KRS 141.200, 141.208 and KRS 136.090**

S Corporations Not Required to File

Income Tax—S Corporations which are exempt by law from Kentucky income tax include financial institutions as defined in KRS 136.500, insurance companies, savings and loan associations, corporations exempted by IRC Section 501 and religious, educational, charitable and like corporations not conducted for profit. **KRS 141.040**

License Tax—S Corporations which are exempt by law from Kentucky income tax, except for S corporations exempt from income tax in accordance with Public Law 86-272, are also exempt from Kentucky license tax. In addition, public service companies subject to ad valorem tax under KRS 136.120, certified alcohol production facilities and certified fluidized bed energy production facilities are exempt from Kentucky license tax. An S corporation doing business in Kentucky solely as a partner in a partnership is not subject to the Kentucky license tax. **KRS 136.070**

Certain unincorporated entities may elect to be treated as S corporations for federal income tax purposes and thus, would be treated as S corporations for Kentucky income tax purposes. However, such entities are not subject to the corporation license tax. Examples of such entities are associations, joint stock companies, LLCs, partnerships and trusts.

Required Forms and Information—Each S corporation must enter all applicable information on Form 720S, attach a schedule for each line item or line item instruction which states "attach schedule," and the following forms or schedules, if applicable:

Kentucky Forms and Schedules

1. Schedule A—Apportionment and Allocation
2. Form 41A720SL—Application for Six-Month Extension of Time to File
3. Schedule K-1 (Form 720S)—Kentucky Shareholder's Share of Income, Credits, Deductions, Etc.

Required Federal Forms and Schedules

All S corporations **must** provide a copy of the following federal forms submitted to the Internal Revenue Service:

1. Form 1120S, Pages 1 and 3
2. Form 1120S, Page 4, Schedule L, Balance Sheet—**If the S corporation is not required to submit a balance sheet for federal income tax purposes, attach the balance sheet prepared from the books and records of the corporation used to complete Form 720S, Part III—License Tax Computation.**
3. Form 4797—Sales of Business Property
4. Schedule D—Capital Gains and Losses
5. Form 5884—Work Opportunity Credit
6. Schedules for items on Form 1120S, Schedule L, which state "attach schedule."
7. Form 4562—Depreciation and Amortization
8. Form 8825—Rental Real Estate Income and Expenses of a Partnership or an S Corporation

Substitute Forms—Any form to be used in lieu of an official Revenue Cabinet form must be submitted to the Cabinet for prior approval.

Accounting Procedures—Kentucky income tax law requires an S corporation to report income on the same calendar or fiscal year and to use the same methods of accounting required for federal income tax purposes. Any federally approved change in accounting periods or methods must be reported to the Revenue Cabinet. Attach a copy of the federal approval to the return when filed. **KRS 141.140**

Filing/Payment Date—An S corporation return must be filed and payment must be made on or before the 15th day of the fourth month following the close of the taxable year. Mail the return with payment to Kentucky Revenue Cabinet, Frankfort, KY 40620. Make the check payable to **Kentucky State Treasurer. KRS 141.160 and KRS 141.220**

If the filing/payment date falls on a Saturday, Sunday or a legal holiday, the filing/payment date is deemed to be on the next business day. **KRS 446.030(1)(a)**

Extensions—An extension of time to file an S corporation income and license tax return may be obtained by either making a specific request to the Revenue Cabinet or attaching a copy of the federal extension to the return when filed. **A copy of the federal extension submitted after the return is filed does not constitute a valid extension, and late filing penalties will be assessed.** For further information, see the instructions for Form 41A720SL. **Regulation 103 KAR 15:050**

NOTE: An extension of time to file a return does not extend the date for payment of tax.

Estimated Tax Payments—Estimated tax payments must be made by each S corporation whose income tax liability for the taxable year can reasonably be expected to exceed \$5,000. In general, the first estimated tax payment must be made by the 15th day of the sixth month of the taxable year. To determine the amount of the first payment, subtract \$5,000 from the estimated full-year tax liability, and divide the result by two. The

remaining one-half is due in equal installments on the 15th day of the ninth and 12th month, respectively. The prior year's income tax liability is not a factor in determining whether a declaration of estimated tax is required. **KRS 141.044**

Failure to pay estimated tax installments equal to the amount determined by subtracting \$5,000 from 70 percent of the total income tax liability shown on the return for the taxable year will result in the assessment of an underpayment penalty. The amount of the penalty is 10 percent of the amount of the underpayment, but not less than \$25. **KRS 131.180(3) and KRS 141.990(3)**

The **Corporation Estimated Income Tax Voucher, Form 720ES**, is used to submit estimated tax payments. If the S corporation is required to make estimated tax payments but did not receive Form 720ES, contact the Revenue Cabinet at (502) 564-3658.

Amended Return—To correct Form 720S as originally filed, file an amended Form 720S and check the appropriate box on page 1. If the amended return results in a change in income or a change in the distribution of any income or other information provided to shareholders, an amended Schedule K-1 (Form 720S) must also be filed with the amended Form 720S and given to each shareholder. Check Item E(2) on each Schedule K-1 to indicate that it is an amended Schedule K-1.

Internal Revenue Service Audit Adjustments—An S corporation which has received final adjustments resulting from Internal Revenue Service audits must submit a copy of the "final determination of the federal audit" within 30 days of the conclusion of the federal audit. Use Form 720S for reporting federal audit adjustments and check the Amended Return box.

Interest—Interest at the tax interest rate is applied to corporation income and license tax liabilities not paid by the date prescribed by law for filing the return (determined without regard to extensions thereof). The tax interest rate for 2001 is published in the January 2001 *Kentucky Tax Alert* or you may contact the Revenue Cabinet at (502) 564-8139 to obtain the tax interest rate.

Penalties

Failure to file an income and license tax return by the filing date including extensions—2 percent of the tax due for each 30 days or fraction thereof that the return is late (maximum 20 percent). The minimum penalty is \$10. **KRS 131.180(1)**

Failure to pay income or license tax by the payment date—2 percent of the tax due for each 30 days or fraction thereof that the payment is overdue (maximum 20 percent). The minimum penalty is \$10. **KRS 131.180(2)**

Late payment or underpayment of estimated tax—10 percent of the late payment or underpayment. The minimum penalty is \$25. **KRS 131.180(3)**

Failure or refusal to file an income and license tax return or furnish information requested in writing—5 percent of the tax assessed for each 30 days or fraction thereof that the return is not filed or the information is not submitted (maximum 50 percent). The minimum penalty is \$25. **KRS 131.180(4)**

Negligence—10 percent of the tax assessed. **KRS 131.180(7)**

Fraud—50 percent of the tax assessed. **KRS 131.180(8)**

Cost of Collection Fees—20 percent on all taxes which become final, due and owing. These collection fees are in addition to all other penalties provided by law. **KRS 131.440**

FORM 720S—SPECIFIC INSTRUCTIONS

Period Covered

File the 2000 return for calendar year 2000 and fiscal years that begin in 2000. For a fiscal year, fill in the taxable period beginning and ending at the top of Form 720S.

All S corporations must fill in the boxes for Taxable Year Ending at the top right of Form 720 and supporting forms and schedules to indicate the ending month and year for which the return is filed.

- A calendar year is a period from January 1 through December 31 each year. This would be entered in the boxes as:

1 2 0 0

- A fiscal year is 12 consecutive months ending on the last day of any month except December. A fiscal year ending January 31, 2001, would be entered in the boxes as:

0 1 0 1

- A 52/53-week year is a fiscal year that varies between 52 and 53 weeks. A 52/53-week year ending the first week of January 2001, would be entered in the boxes as:

1 2 0 0

Failure to properly reflect the **Taxable Year Ending** may result in delinquency notices or billings for failure to file.

Item A—The applicable boxes must be checked to identify the S corporation's filing status.

Income Tax Filing Status

An S corporation must file on the same basis for Kentucky income tax purposes as for federal income tax purposes.

Return not required—Check this box and enter one of the following reason codes if the S corporation is not required to file the income tax return.

Reason
Code

Reason

- 11 This return contains only the license tax computation. This corporation is a qualified Subchapter S subsidiary which was treated as a division of the parent corporation for income tax purposes. **Item D must be completed by entering the name and the Kentucky Account Number of the parent corporation.**
- 12 This return contains only the license tax computation. The S corporation is exempt from income tax in accordance with Public Law 86-272.

License Tax Filing Status

Separate entity—Check this box if the license tax return is filed on a separate entity basis.

An S corporation is required to file a separate entity license tax return except as provided in KRS 136.071. **KRS 136.090**

In any case where two or more corporations merge, consolidate or otherwise combine into a single corporation after the close of the taxable year, but before the beginning of the succeeding taxable year, all factors used to determine the corporation license tax liability of the surviving corporation shall be computed on the basis of the consolidated accounting records of such corporations. Attach a schedule listing the corporations included in the return. **KRS 136.100(3)**

Consolidated—Check this box if the S corporation qualifies and computes capital employed on a consolidated basis in accordance with KRS 136.071.

An S corporation domiciled in Kentucky which holds stock or securities in other corporations equal to or greater than 50 percent of its total assets (investment ratio) may file a consolidated license tax return with all corporations (except those corporations exempt from tax under KRS 136.070) in which it owns directly or indirectly more than 50 percent of the corporation's outstanding stock. Attach a schedule listing the corporations included in the license tax return and the computation of the investment ratio. Attach a consolidated balance sheet (prepared in columnar form) for the corporations included in the consolidated license tax return. **KRS 136.071**

Return not required—Check this box and enter one of the following reason codes if the corporation is not required to file the license tax return.

Reason Code	Reason
20	License tax is not due. This is the S corporation's final return.
21	License tax is not due. This S corporation is a public service company subject to taxation under KRS 136.120.
22	License tax is not due. The net income tax liability is computed on a short-period basis due to a change in ownership or a change to C corporation status without a change in accounting period (see Item E if a short-period return is filed).
23	This return contains only the income tax computation. This S corporation is not organized in Kentucky, does not have its commercial domicile in Kentucky, and does not own or lease property or have individuals receiving compensation in Kentucky, but is the parent of a qualified Subchapter S subsidiary which has operations in Kentucky.
25	This return contains only the income tax computation. This S corporation carries on business in Kentucky only as a partner in a partnership.
26	This return contains only the income tax computation. This entity is an LLC and is therefore not subject to license tax.
27	This return contains only the income tax computation. This is an unincorporated entity such as an association, a joint stock company, a partnership or a trust and is therefore not subject to license tax.

Name and Address—Print or type the S corporation's name as set forth in the charter. For the address, include the suite, room or other unit number after the street address. If the U.S. Postal Service does not deliver mail to the street address and the S corporation has a P.O. box, show the box number instead of the street address (see **Item E** if a change in name or address has occurred).

Telephone Number—Enter the business telephone number of the principal officer or chief accounting officer signing this return.

Kentucky Business Code Number—Enter the principal business activity code number listed in the federal Form 1120S instructions that best describes the principal business activity in Kentucky. Enter a brief description of the Kentucky activity in the appropriate box.

Federal Business Code Number—Enter the S corporation's federal principal business activity number from the instructions to Form 1120S.

NOTE: The Kentucky and federal business code numbers entered on Form 720S may be different if the principal business in Kentucky varies from the principal business outside Kentucky.

Item B—Enter the S corporation's Federal Identification Number. See federal Publication 583 if the corporation has not obtained this number.

Item C—Enter the six-digit Kentucky Account Number in the appropriate box at the top of each form and schedule and on all checks and correspondence. This number is located in correspondence received from the Revenue Cabinet as a result of registration.

If the account number is not known, telephone (502) 564-8139.

Item D—See Reason Code 11 under Item A.

Item E—Check the applicable boxes:

- (a) *LLC*—This return is for a limited liability company.
- (b) *Initial Return*—This return is the S corporation's initial return. Complete questions 1, 2 and 3 on Form 720, page 2, Schedule Q, Kentucky Corporation Questionnaire.
- (c) *Final Return*—This return is the S corporation's final return, i.e., the corporation dissolved, withdrew its qualification, or otherwise ceased to do business in Kentucky during the taxable period.
- (d) *Amended Return*—Submit an explanation for the amended return.
- (e) *Short-period Return*—This return is a short-period return. **Submit an explanation for the short-period return.**
- (f) *Change of Name/Address*—A change in name or address has occurred. **Submit a copy of the amendment of the articles of incorporation for a name change.**

PART I—ORDINARY INCOME (LOSS) COMPUTATION

Line 1—Enter the amount from Form 1120S, Line 21, ordinary income (loss) from trade or business activities. **Attach Form 1120S, pages 1, 3 and 4.**

Additions to Federal Ordinary Income—Lines 2 and 3 itemize items of additional income or unallowed deductions which are differences between federal ordinary income and Kentucky ordinary income.

Line 2—Enter state taxes measured in whole or in part by gross or net income. "State" means any state of the United States, the District of Columbia, the commonwealth of Puerto Rico, any territory or possession of the United States or any foreign country or political subdivision thereof. Attach a schedule reflecting the total taxes deducted on Form 1120S. **KRS 141.010(11)(a)** (For additional information, see Revenue Policies 41P100, 41P110, 41P120 and 41P121.)

Line 3—Enter other differences which result in additions to federal ordinary income in computing Kentucky ordinary income:

- (a) To determine the allowable depletion deduction for Kentucky purposes, the percentage limitations provided by the IRC must be applied to Kentucky gross/net income rather than federal gross/net income. **KRS 141.206**
- (b) Any difference in the gain (loss) upon disposition of intangible assets resulting from a difference between the accumulated federal amortization deduction and the accumulated Kentucky amortization deduction. **Regulation 103 KAR 15:090**

Line 4—Enter the total of Lines 1, 2 and 3.

Subtractions from Federal Ordinary Income—Lines 5 and 6 itemize items of additional deductions allowed which are differences between federal ordinary income and Kentucky ordinary income.

Line 5—Enter the amount of the work opportunity credit reflected on federal Form 5884. For Kentucky purposes, the S corporation may deduct the total amount of salaries and wages paid or incurred for the taxable year (see Revenue Policy 41P090).

Line 6—Enter other differences which result in subtractions to federal ordinary income in computing Kentucky ordinary income:

- (a) To determine the allowable depletion deduction for Kentucky purposes, the percentage limitations provided by the IRC must be applied to Kentucky gross/net income rather than federal gross/net income. **KRS 141.206**
- (b) Any difference in the gain (loss) upon disposition of intangible assets resulting from a difference between the accumulated federal amortization deduction and the accumulated Kentucky amortization deduction. **Regulation 103 KAR 15:090**

Line 7—Subtract Lines 5 and 6 from Line 4.

PART II—INCOME TAX COMPUTATION

KRS 141.040(5) imposes an income tax on certain capital gains of an S corporation. Lines 1 through 7 must be completed if: (1) the S corporation's Kentucky taxable income is more than \$25,000; (2) Kentucky net capital gain is more than \$25,000 and more than 50 percent of taxable income; and (3) the capital gains are not exempt from federal income tax under IRC Section 1374.

If the capital gain results in the S corporation being subject to the tax determined in either Part III or Part IV of the federal Schedule D (Form 1120S), the gain is deemed not to be exempt from tax under IRC Section 1374, and therefore, the S corporation is subject to the tax imposed by KRS 141.040(5) if the tests in the above paragraphs are met.

If the tests in the above paragraphs are not met, skip Lines 1 through 8, enter zero on Line 9 and complete Lines 10 through 20, where applicable.

Line 1—Enter the taxable income of the S corporation. Taxable income is computed in the same manner as in the case of an individual under KRS 141.010(9) through (11) and the adjustments required under IRC Sections 703(a) and 1363(b) which include all items of income, loss and expense separately stated and all items used to figure nonseparately computed income or loss reported on Form 720S. Attach a schedule used in computing taxable income. **KRS 141.206**

Line 2—Subtract the statutory exemption of \$25,000 from Line 1 and enter the amount. **KRS 141.040(5)**

Line 3—Enter the excess of net long-term capital gain, Line 16, Part III of federal Schedule D (Form 1120S), over any net short-term capital loss, Line 4, Part I of federal Schedule D (Form 1120S).

Line 4—Subtract the statutory exemption of \$25,000 from Line 3 and enter the amount. **KRS 141.040(5)**

Line 5—Enter the lesser of Line 2 or Line 4.

Line 6—Enter "100" or the apportionment fraction from Schedule A, Section I, Line 12, if applicable. Schedule A, Section II does not apply to S corporations.

Line 7—Multiply the amount on Line 5 by the percentage on Line 6.

Line 8—Income Tax Liability. To compute the liability, apply the following rates:

- (a) 4 percent of the first \$25,000 of taxable income;
- (b) 5 percent of the amount of taxable income in excess of \$25,000, but not in excess of \$50,000;
- (c) 6 percent of the amount of taxable income in excess of \$50,000, but not in excess of \$100,000;
- (d) 7 percent of the amount of taxable income in excess of \$100,000, but not in excess of \$250,000; and
- (e) 8.25 percent of the amount of taxable income in excess of \$250,000.

Short-period Computation of Income Tax—An S corporation filing an income tax return for a period of less than 12 months is required to annualize taxable net income. To annualize, multiply taxable net income computed for the short period by 365 and divide by the number of days in the short period. The income tax liability shall be the tax computed on the annualized income multiplied by the number of days in the short period and divided by 365. **Annualization is not permitted if the return is for the initial or final period of operations. KRS 141.140**

Line 9—Enterprise Zone Tax Credit. For employees hired on or after July 14, 1992, an S corporation certified by the Kentucky Enterprise Zone Authority as a qualified business may be entitled to a credit against Kentucky S corporation income tax equal to 10 percent of wages paid to each employee who has been certified by the Cabinet for Workforce Development as having been unemployed for at least 90 days or having received public assistance benefits, based on need and intended to alleviate poverty, for at least 90 days prior to employment with the qualified business. The credit is limited to \$1,500 per employee, and any unused credit may be carried forward for up to five years. To claim the credit, Schedule EZC must be filed. **This is a nonrefundable credit. Therefore, it cannot exceed the amount on Line 8. KRS 154.45-090**

Line 10—Subtract Line 9 from Line 8.

Line 11—Enter the total of estimated tax payments made for the taxable year.

Line 12—Enter the amount of income tax paid with Form 41A720SL, Application for Six-month Extension of Time to File Kentucky Corporation Income and License Tax Return.

Line 13—Enter the amount credited to 2000 from Part II, Line 19 of the 1999 S corporation income tax return.

Line 14—Enter the license tax overpayment credited to the 2000 income tax liability from Part III, Line 21.

Line 15—If Line 10 is greater than the total of Lines 11 through 14, enter the difference on this line and submit payment.

Line 16—If Line 10 is less than the total of Lines 11 through 14, enter the difference.

Line 17—Enter the portion of Line 16 credited to the 2000 license tax liability in Part III, Line 18.

Line 18—Enter the portion of Line 16 credited to 2001.

Line 19—Enter the portion of Line 16 (Line 16 less Lines 17 and 18) to be refunded.

PART III—LICENSE TAX COMPUTATION

NOTE: If the Final Return box in Item E has been checked, no license tax is due. Complete only Lines 19 through 25, where applicable.

Capital Defined—Capital is defined by KRS 136.070(2) and is not dependent upon the various technical definitions of capital

prescribed for accounting, economics or other governmental purposes. Capital includes capital stock, surplus, advances by affiliated companies, intercompany accounts and borrowed moneys. **KRS 136.070(2) and Regulation 103 KAR 20:020**

Balance Sheet—KRS 136.070(2)(a) provides that the accounts comprising capital shall be reported at the value shown on the financial statement prepared for book purposes. Regulation 103 KAR 20:020 defines "financial statement prepared for book purpose" to mean:

- (a) the balance sheet prepared on a consistent basis from the S corporation's books and records as of the last day of the taxable year; and
- (b) if the balance sheet presentation of an account is questioned, a financial statement prepared as required by generally accepted accounting principles.

The balance sheet presented for federal income tax purposes (Form 1120, Schedule L) is the balance sheet that generally meets this definition. **KRS 136.070(2)(a) and Regulation 103 KAR 20:020**

Line 1—Enter the value of capital stock computed as follows:

- (a) The sum of:
 1. the par value of all issued and outstanding shares of stock having a par value; and
 2. the amount of consideration received by the S corporation for shares of stock issued and outstanding without a par value.
- (b) Less treasury stock. **Regulation 103 KAR 20:020, Section 1 (6)**

Line 2(a)—Enter the value of total assets of the corporation computed as follows:

- (a) The sum of:
 1. the original cost of the entire property of the S corporation excluding deferred tax benefits; and
 2. equity in affiliated S corporations if the S corporation records the equity on its financial statements prepared for book purposes.
- (b) Less applicable contra-asset accounts. **Regulation 103 KAR 20:020, Section 1(17) and Section 3**

Line 2(b)—Enter the total debt of the S corporation including trade payables or accrued operating expense accounts. Debt does not include contingent or estimated liabilities. **Regulation 103 KAR 20:020, Section 1(8)**

Line 2(c)—Subtract Line 2(b) from Line 2(a) and enter the result here. **Regulation 103 KAR 20:020, Section 1(14)**

Line 2(d)—Enter the amount of capital stock from Line 1. **Regulation 103 KAR 20:020, Section 1(6)**

Line 3—Subtract Line 2(d) from Line 2(c) and enter the result here. **Regulation 103 KAR 20:020, Section 1(16)**

Line 4—Enter the excess if any of the advances by or from affiliated companies over the total advances to affiliated companies. Advances by affiliated companies include liability accounts representing a transfer of cash resulting from a cash management plan. Advances to affiliated companies include asset accounts representing a transfer of cash resulting from a cash management plan. *If advances to affiliated companies exceed advances by affiliated companies, enter zero on this line.* **Regulation 103 KAR 20:020, Section 4**

Line 5—Enter the net of intercompany payable and receivable accounts. Intercompany accounts do not include loans of money, asset or liability accounts between affiliated companies representing transfers of cash resulting from a cash management

plan or advances by or to an affiliated company. *If intercompany receivables exceed intercompany payables, enter the amount on this line as a negative.* **Regulation 103 KAR 20:020, Section 5**

Line 6—Enter the year-end balance of all loans including loans from stockholders and bank overdrafts. Borrowed moneys do not include trade accounts or notes payable arising through trade transactions including salaries payable, taxes payable, or accounts representing various types of liabilities incurred for supplies, repairs, or other accounts if the seller allows the purchaser to pay within 30 to 90 days. **Regulation 103 KAR 20:020, Section 5**

Line 7—Enter moneys borrowed to purchase inventory if the S corporation can show by evidence submitted with the return that the moneys were used to purchase inventory. If a line of credit is used, the Revenue Cabinet will accept the following types of evidence to establish that all or a portion of the borrowed money has been used directly to purchase inventory:

1. A copy of the loan agreement, or other document executed at the time the line of credit is established, stating that the sole purpose of the loan is for purchasing inventory. If such a document is submitted to the Revenue Cabinet, the lesser of the balance of the line of credit at the end of the year or the total cost of the inventory purchased for the year will be excluded from the calculation of capital under KRS 136.070.
2. If the corporation cannot produce documentation that the line of credit is to be used solely for the purchase of inventory, the Revenue Cabinet will allow a pro rata portion of the line of credit balance to be excluded from capital by using a formula to determine the amount of the line of credit reasonably attributable to the purchase of inventory. A copy of the loan agreement or other document executed at the time the line of credit is established must be submitted.
 - (a) The amount of moneys borrowed to finance inventory will be determined by multiplying the line of credit balance at the end of the taxable year by a fraction, the numerator of which is cash outlays for inventory during the taxable year and the denominator of which is total cash outlays during the taxable year.
 - (b) Any other formula sufficient to document that all or a portion of the borrowed moneys are attributable to the purchase of inventory will be considered by the Revenue Cabinet upon submission.

(See Revenue Policies 41P520, 41P530 and 41P550.)

Line 8—This deduction is available only to a corporation filing a separate entity license tax return which is domiciled in Kentucky and holds stock or securities in other S corporations equal to or greater than 50 percent of its total assets (investment ratio). Enter the book value of the S corporation's investment in the stock and securities of any S corporation in which it owns more than 50 percent of the S corporation's outstanding stock. Attach a schedule showing the computation of the investment ratio and a schedule showing the computation of the deduction listing the name of each S corporation, percentage of stock owned and the amount of deduction taken. **KRS 136.071**

Line 9—Combine Line 1 and Lines 3 through 8.

Line 10—Enter "100" or the apportionment fraction from Schedule A, Section I, Line 12, if applicable.

Line 11—Multiply the amount on Line 9 by the percentage on Line 10.

Line 12—Multiply the amount on Line 11 by .0021. Enter the result or \$30, whichever is greater. The license tax rate is \$2.10 on each \$1,000 of capital employed in the business in Kentucky or a minimum of \$30. **KRS 136.070(1) and (5)**

Line 13—An S corporation with gross income of \$500,000 or less is allowed a credit of \$1.40 per \$1,000 of the first \$350,000 of capital employed (maximum credit \$490) against the license tax. For the purpose of this credit, gross income means total taxable and nontaxable receipts before reduction for cost of goods sold, cost of assets sold or other deductions. Do not include prior year credit on this line. **KRS 136.070(a) and Regulation 103 KAR 20:010**

Line 14—Subtract Line 13 from Line 12 and enter the result or \$30, whichever is greater.

Short-period Computation of License Tax—An S corporation filing a short-period license tax return resulting from a **change in accounting period** is required to annualize its license tax liability. To annualize, subtract Line 13 from Line 12, multiply by the number of months in the short period, divide by 12, and enter the result or \$30, whichever is greater. The license tax liability is not annualized on an initial return. **KRS 136.100**

NOTE: No license tax return is required for short periods due to a change in ownership or the termination of the election of S corporation treatment **unless** there is a change in accounting period.

Line 15—KIRA Tax Credit. Enter the appropriate amount from Schedule KIRA-L. *This credit is applicable only for those corporations which have been approved by the Kentucky Economic Development Finance Authority (KEDFA) for a Kentucky Industrial Revitalization (KIRA) Project and have executed a Revitalization Agreement with KEDFA. This is a nonrefundable credit. Therefore, it cannot exceed the amount on Line 14.* **KRS154.26-090 and KRS 136.0704**

Line 16—Net License Tax Liability. Subtract Line 15 from Line 14.

Line 17—Enter the amount of license tax paid with the application for Six-month Extension of Time to File Kentucky Corporation Income and License Tax Return, Form 41A720SL.

Line 18—Enter the income tax overpayment credited to the 2000 license tax liability from Part II, Line 17 and any amount credited to 2000 from line 25 of the 1999 return.

Line 19—If line 16 is greater than the total of Lines 17 and 18, enter the difference and submit payment.

Line 20—If Line 16 is less than the total of Lines 17 and 18, enter the difference.

Line 21—Enter the portion of Line 20 credited to the 2000 income tax liability in Part II, Line 14.

Line 22—Enter the portion of Line 20 to be credited to 2001.

Line 23—Enter the portion of Line 20 (Line 20 less Lines 21 and 22) to be refunded.

Tax Payment Summary—The payment submitted with Form 720 must be itemized. Enter the amount of income tax payment in the Income boxes (Part II, Line 15), the amount of license tax payment in the License boxes (Part III, Line 19), the amount of interest payment in the Interest boxes, the amount of penalty payment in the Penalty boxes, and the total payment in the TOTAL boxes.

 **Signature**—Form 720S must be signed by an authorized corporate officer. **Failure by corporate officers to sign the return, to complete all applicable lines on any required Kentucky form, to attach all applicable schedules including copies of federal forms, or to complete all information on the questionnaire will delay the processing of tax returns and may result in the assessment of penalties.**

SCHEDULE K-1 (FORM 720S)—KENTUCKY SHAREHOLDER'S SHARE OF INCOME, CREDITS, DEDUCTIONS, ETC.

General Instructions

Schedule K-1 (Form 720S) shows each shareholder's pro rata share of the S corporation's income, deductions, credits, etc. On each Schedule K-1 (Form 720S) enter the names, addresses and identifying numbers of the shareholder and S corporation, complete items A, B and C. All shareholders' names, Social Security or identifying numbers and other shareholder information must be complete and legible. Schedule K-1 (Form 720S) must be completed and given to each shareholder with instructions on or before the day on which Form 720S is filed with the Revenue Cabinet.

A copy of each shareholder's K-1 (Form 720S) must be attached to Form 720S filed with the Revenue Cabinet, and a copy kept as part of the S corporation's records.

Photocopies of Schedule K-1 (Form 720S) may be used in lieu of the official schedule printed by the Revenue Cabinet, provided the photocopies are on bond paper of at least 16 pounds and are of good quality.

Specific Instructions

Federal instructions for Schedule K-1 (Form 1120S) explain the rules for allocating items of income (loss), deductions, credits, etc., to each shareholder. The total pro rata share items (Column (b)) of all Schedules K-1 (Form 720S) should equal the amounts reported on the same lines of Schedule K (Form 720S), Lines 1 through 23. Lines 24 through 26 do not correspond with Schedule K (Form 720S).

Multiple Activities—If items of income, loss or deduction from more than one activity are reported on Lines 1, 2 or 3 of Schedule K-1 (Form 720S), the S corporation must provide information for each activity to its shareholders. See **Passive Activity Reporting Requirements** in the instructions for Schedule K-1 (Form 1120S) for details on the information to be provided on an attachment to Schedule K-1 (Form 720S) for each activity.

At-Risk Activities—If the S corporation is involved in one or more at-risk activities for which a loss is reported on Schedule K-1 (Form 720S), the S corporation must report information separately for each at-risk activity. See **Special Reporting Requirements for At-Risk Activities** in the federal instructions for Schedule K-1 (Form 1120S) for details on the information to be provided on an attachment to Schedule K-1 (Form 720S) for each at-risk activity.

Lines 1 through 22—Enter the shareholder's total pro rata share of each item listed on Schedule K, Form 720S. **Do not multiply these amounts by the percentage entered on Item B(2).** Attach schedules showing separately the required information for each IRC Section 469 passive activity and each Section 465 at-risk activity. Other schedules are to be attached for line items where requested on Schedule K-1 (Form 720S).

Line 23—Enter on attached schedules the supplemental information required to be reported separately to each shareholder for Lines 1 through 22 and any other information or items and amounts not included on Schedule K-1 (Form 720S) that the shareholder needs to prepare a Kentucky income tax return including, but not limited to, any recapture of Section 179 deduction, gross income and other information relating to oil and gas well properties enabling the shareholder to figure the allowable depletion deduction, etc. See instructions for federal Schedule K-1 (Form 1120S), Line 23.

Lines 24 through 26—The amounts in Column (b) are to be entered by the shareholder, not the S corporation.

TAXPAYER ASSISTANCE

Forms:

Support Services Branch
Revenue Cabinet
200 Fair Oaks Lane
Frankfort, KY 40620
(502) 564-3658
(502) 564-4459 (Forms by Fax)
<http://www.state.ky.us/agencies/revenue> (Internet)



Information:

Corporation Tax Section
Revenue Cabinet
P.O. Box 1302
Frankfort, KY 40602-1302
Revenue Cabinet
200 Fair Oaks Lane
Frankfort, KY 40620
(502) 564-4581
(502) 564-3058 (Telecommunication Device for the Deaf)



Louisville, 620 South Third Street
Suite 102, 40202-2446
(502) 595-4512

Northern Kentucky, Turfway Ridge Office Park
7310 Turfway Road, Suite 190, Florence, 41042-1385
(859) 371-9049

Owensboro, Building C, Suite 201
401 Frederica Street, 42302
(270) 687-7301

Paducah, Paducah Bank Building, Suites 302/306
555 Jefferson Street, 42001-1001
(270) 575-7148

Pikeville, Uniplex Center, 126 Trivette Drive, Suite 203, 41501
(606) 433-7675

**This office will be relocated in the near future.*

KENTUCKY TAXPAYER SERVICE CENTERS

Information and forms are available from Kentucky Taxpayer Service Centers in the following cities.

Ashland, 134 Sixteenth Street, 41101-7670
(606) 920-2037

Bowling Green*, 1502 Westen Street, 42104-3356
(270) 746-7470

Corbin, Falls Road Plaza
1707 18th Street, Suite 5, 40701-8676
(606) 528-3322

Hazard, 233 Birch Street, 41701-2179
(606) 435-6017

Hopkinsville, 181 Hammond Drive, 42240
(270) 889-6521

Lexington, 301 East Main Street,
Suite 500, 40507-1556
(859) 246-2165

<p>INTANGIBLE PROPERTY TAXES—The listing period for intangible property is January 1 through May 15 of each year. Each taxpayer is responsible for reporting intangible property subject to ad valorem taxation. The Intangible Property Tax Return, Revenue Form 62A376, and instructions can be obtained from the Department of Property Valuation or your local county property valuation administrator's office.</p>
<p>TANGIBLE PERSONAL PROPERTY TAXES—The listing period for tangible personal property is January 1 through May 15 of each year. Each taxpayer is responsible for reporting his tangible personalty subject to ad valorem taxation. The Tangible Personal Property Tax Return, Revenue Form 62A500, and instructions can be obtained from the Department of Property Valuation or your local county property valuation administrator's office. A separate form must be filed for each location in Kentucky where you have tangible personal property.</p>

Kentucky Revenue Cabinet Mission Statement

To provide courteous, accurate and efficient services for the benefit of Kentucky and its citizens, and administer the tax laws of the Commonwealth in a fair and impartial manner.

* * * * *

The Kentucky Revenue Cabinet does not discriminate on the basis of race, color, national origin, sex, religion, age or disability in employment or the provision of services.

YOUR RIGHTS AS A KENTUCKY TAXPAYER

The mission of the Kentucky Revenue Cabinet (KRC) is to provide courteous, accurate and efficient services for the benefit of Kentucky and its citizens, and administer the tax laws of the Commonwealth in a fair and impartial manner.

As a Kentucky taxpayer, you have the right to expect the KRC to honor its mission and uphold your rights every time you contact or are contacted by the KRC.

RIGHTS OF TAXPAYER

Privacy—You have the right to privacy of information provided to the KRC.

Assistance—You have the right to advice and assistance from the KRC in complying with state tax laws.

Explanation—You have the right to a clear and concise explanation of:

- basis of assessment of additional taxes, interest and penalties, or the denial or reduction of any refund or credit claim;
- procedure for protest and appeal of a determination of the KRC; and
- tax laws and changes in tax laws so that you can comply with the law.

Protest and Appeal—You have the right to protest and appeal a determination of the KRC if you disagree with an assessment of tax or penalty, reduction or a denial of a refund, a revocation of a license or permit, or other determination made by the KRC.

Conference—You have the right to a conference to discuss a tax matter.

Representation—You have the right to representation by your authorized agent (attorney, accountant or other person) in any hearing or conference with the KRC. You have the right to be informed of this right prior to the conference or hearing. If you intend for your representative to attend the conference or hearing in your place, you may be required to give your representative a power of attorney before the KRC can discuss tax matters with your authorized agent.

Recordings—You have the right to make an audio recording of any meeting, conference or hearing with the KRC, or to be notified in advance if the KRC plans to record the proceedings and to receive a copy of any recording.

Consideration—You have the right to consideration of:

- waiver of penalties or collection fees if "reasonable cause" for reduction or waiver is given ("reasonable cause" is defined in KRS 131.010(9) as: "an event, happening, or circumstance entirely beyond the knowledge or control of a taxpayer who has exercised due care and prudence in the filing of a return or report or the payment of monies due the cabinet pursuant to law or administrative regulation");
- installment payments of delinquent taxes, interest and penalties;
- waiver of interest and penalties, but not taxes, resulting from incorrect written advice from the KRC if all facts were given and the law did not change or the courts did not issue a ruling to the contrary;
- extension of time for filing reports or returns; and
- payment of charges incurred resulting from an erroneous filing of a lien or levy by the KRC.

Guarantee—You have the right to a guarantee that KRC employees are not paid, evaluated or promoted based on taxes assessed or collected, or a tax assessment or collection quota or goal imposed or suggested.

Damages—You have the right to file a claim for actual and direct monetary damages with the Kentucky Board of Claims if a KRC employee willfully, recklessly and intentionally disregards your rights as a Kentucky taxpayer.

Interest—You have the right to receive interest on an overpayment of tax, except delinquent property tax, payable at the same rate you would pay if you underpaid your tax.

REVENUE CABINET RESPONSIBILITIES

The KRC has the responsibility to:

- perform audits, conduct conferences and hearings with you at reasonable times and places;
- authorize, require or conduct an investigation or surveillance of you only if it relates to a tax matter;
- make a written request for payment of delinquent taxes which are due and payable at least 30 days prior to seizure and sale of your assets;
- conduct educational and informational programs to help you understand and comply with the laws;
- publish clear and simple statements to explain tax procedures, remedies, your rights and obligations, and the rights and obligations of the KRC;
- notify you in writing when an erroneous lien or levy is released and, if requested, notify major credit reporting companies in counties where lien was filed;
- advise you of procedures, remedies and your rights and obligations with an original notice of audit or when an original notice of tax due is issued, a refund or credit is denied or reduced, or whenever a license or permit is denied, revoked or canceled;
- notify you in writing prior to termination or modification of a payment agreement;
- furnish copies of the agent's audit workpapers and a written narrative explaining the reason(s) for the assessment; and
- resolve tax controversies on a fair and equitable basis at the administrative level whenever possible.

The KRC has a Taxpayer Ombudsman's Office which consists of the Ombudsman and a staff whose job is to serve as an advocate for taxpayers' rights. One of the main functions of the office is to ensure that your rights as a Kentucky taxpayer are protected by the KRC.

The Taxpayer Ombudsman's Office may be contacted by telephone at (502) 564-7822 (between 8:00 a.m. and 4:30 p.m. weekdays). From a Telecommunication Device for the Deaf (TDD), call (502) 564-3058. The mailing address is: Office of Taxpayer Ombudsman, P.O. Box 930, Frankfort, Kentucky 40602-0930.

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This information merely summarizes your rights as a Kentucky taxpayer and the responsibilities of the Revenue Cabinet. The Kentucky Taxpayers' Bill of Rights may be found in the Kentucky Revised Statutes (KRS) at Chapter 131.041—131.081. Additional rights and responsibilities are provided for in KRS 131.020, 131.110, 131.170, 131.183, 131.500, 133.120, 133.130, 134.580 and 134.590.